

EFFECT OF RECENT FEDERAL INCOME TAX CHANGES ON ARKANSAS TAXPAYERS WITH IRA'S, EDUCATION IRA'S, PENSION PLANS, AND DEFERRED COMPENSATION PLANS

Congress recently amended several provisions of federal income tax law concerning IRA's, education IRA's, pension plans, and deferred compensation plans. Arkansas previously adopted the federal law in these areas. Arkansas law prohibits the automatic adoption of these federal law changes. This creates problems for taxpayers who must now comply with two sets of laws with regard to their IRA, pension plan, or deferred compensation plan. To address these problems prior to the 2003 legislative session, the Department of Finance and Administration (DFA) will implement the following plan:

- Draft the 2002 state income tax forms and instructions to accommodate the retroactive adoption of these recent federal law changes concerning IRA's, education IRA's, pension plans, and deferred compensation plans early in the 2003 legislative session;
- Institute an aggressive taxpayer education program explaining the differences between current federal and state law;
- Inform taxpayers and tax professionals that the 2003 General Assembly may adopt these federal law changes retroactively early in the 2003 legislative session;
- Encourage taxpayers and tax professionals to refrain from filing their 2002 tax returns until the General Assembly has addressed these federal law changes;
- DFA will prepare a bill that can be pre-filed and be ready for consideration early in the 2003 legislative session to adopt these federal changes affecting IRA's, education IRA's, pension plans, and deferred compensation plans;
- If the General Assembly determines that certain provisions of the new federal law should not be adopted retroactively, DFA will abate interest and penalty assessed against taxpayers who followed the federal law changes when preparing their return.